KING'S CAPITAL

Markets Overview

Markets Overview

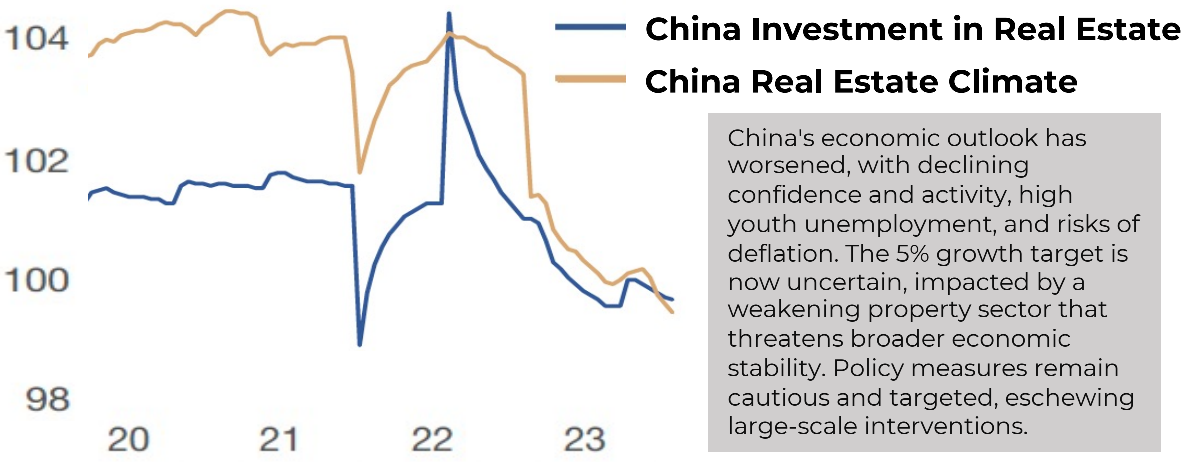
In October 2023, equities markets exhibited positive performance following a pause in Federal Reserve interest rate hikes, amid broader economic stabilization efforts and a challenging climate in China's real estate sector.

Equities Performance

Market Returns	**S&P 500**	3.98%
	Nasdaq	2.83%
	FTSE	-0.18%
	HKEX	3.82%

In October 2023, the market landscape was notably shaped by the Federal Reserve's decision to halt interest rate hikes at 5.25%. The S&P 500 and Nasdaq reflected investor optimism, rising by 3.98% and 2.83% respectively. Conversely, the FTSE saw a slight retreat by 0.18%, hinting at a divergent impact or other market-specific factors at play. Meanwhile, the HKEX mirrored the positive sentiment with a significant gain of 3.82%.

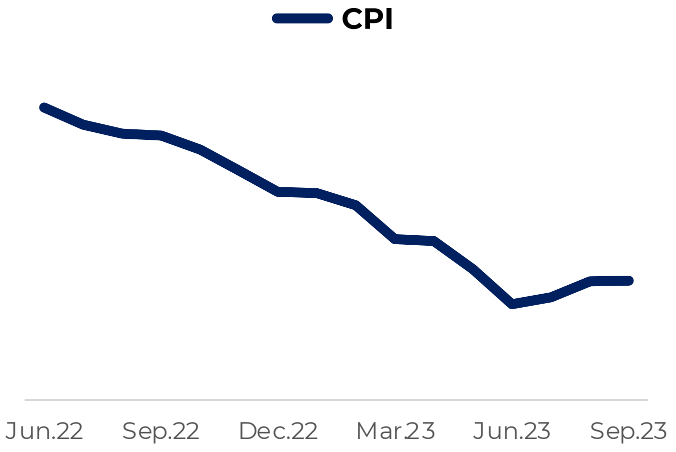
Chinese Market



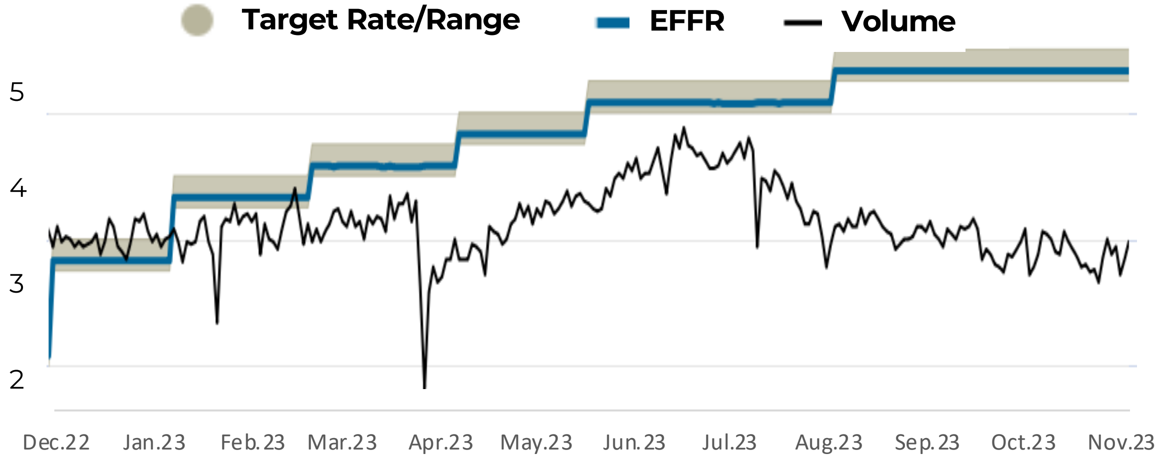
China's economic outlook has worsened, with declining confidence and activity, high youth unemployment, and risks of deflation. The 5% growth target is now uncertain, impacted by a weakening property sector that threatens broader economic stability. Policy measures remain cautious and targeted, eschewing large-scale interventions.

Inflation

The CPI data from June 2022 to September 2023 indicates a declining trend in inflation, with rates falling from a high of 9.06% to 3.7%. This suggests that the Federal Reserve's policy of raising interest rates has been effective in controlling inflation, bringing it down towards the targeted range. The consistent decrease over the months aligns with a proactive approach by the Fed to stabilize the economy.



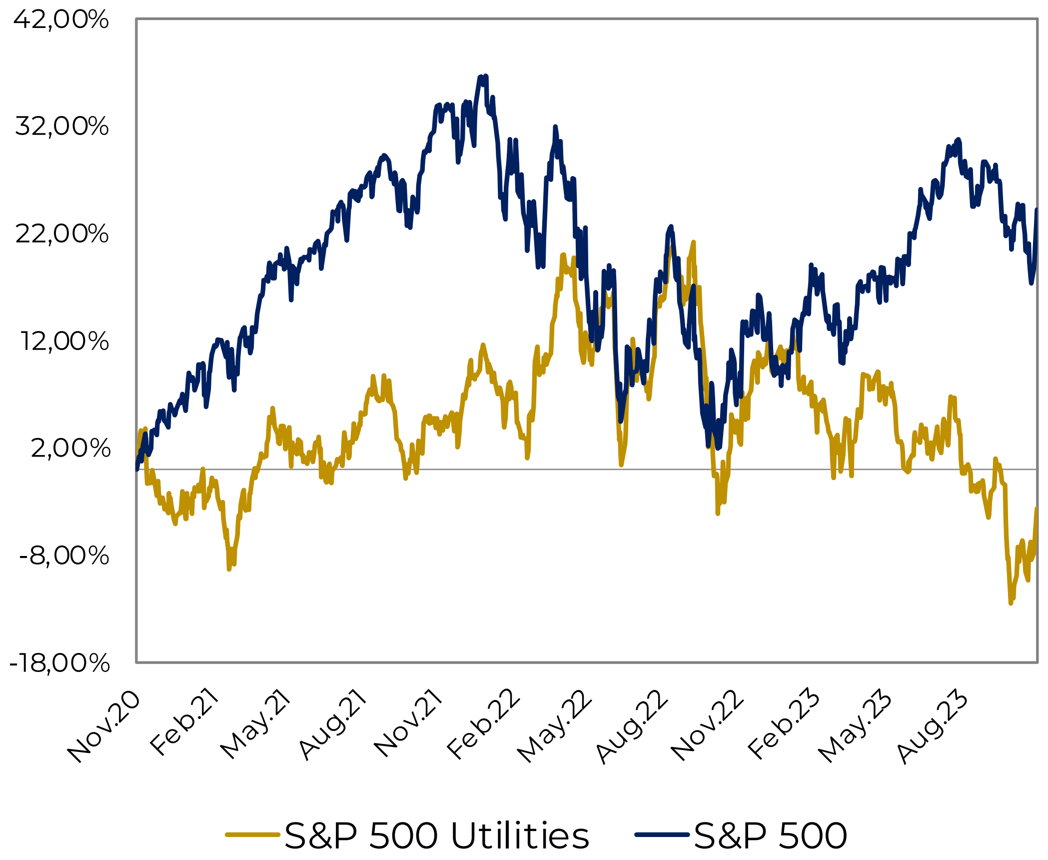
Federal Reserve

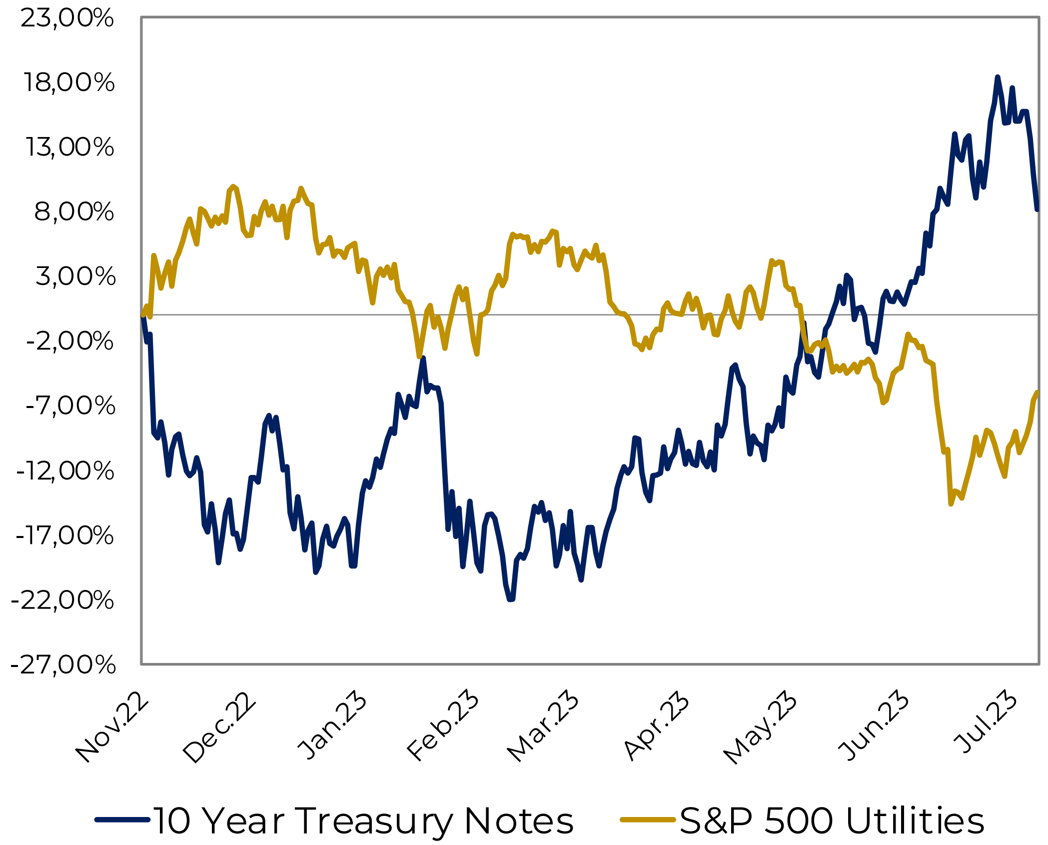


Source : CapIQ, FED report

Utilities and Energy Market Analysis

The upcoming analysis will delve into the performance trends of the Utilities sector within the broader market context, examining its correlation with economic indicators and financial instruments





What does this mean

Utility stocks are typically inversely correlated to interest rates, meaning as interest rates rise, utility stocks often decline in value. This vulnerability stems from two main factors: competition with bonds, as higher interest rates make bonds more attractive to conservative investors, and increased borrowing costs due to utilities' significant infrastructure-related debt. If utility companies can't pass on higher costs to customers, it diminishes their appeal to investors.

Source : CapIQ

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ConocoPhillips – (NYSE: COP)

Recommendation: Long

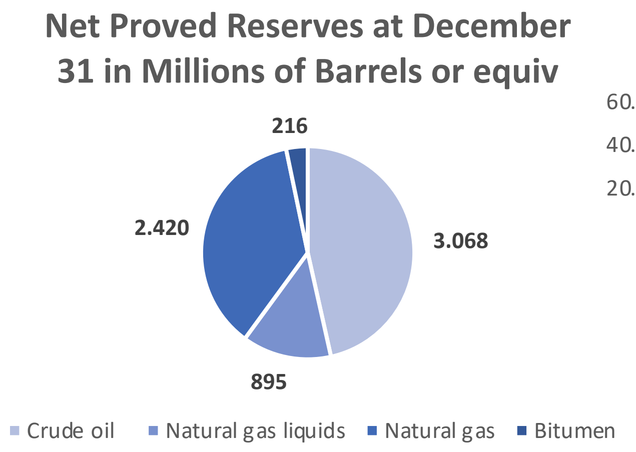
Tanay Sonawane

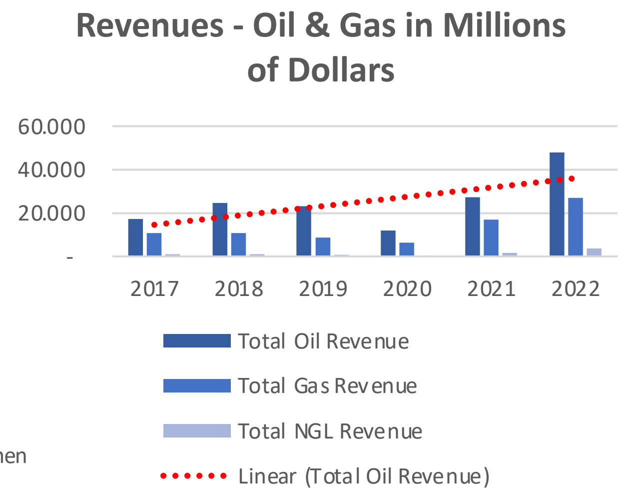
04/10/2023

Company Overview

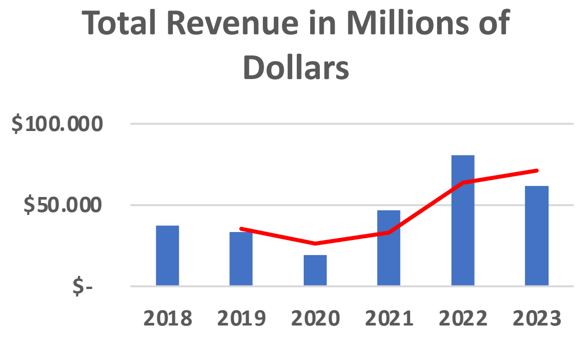
ConocoPhillips explores, produces, and markets energy resources globally, including oil, natural gas, and LNG. Their operations cover a diverse range of assets and exploration prospects worldwide.

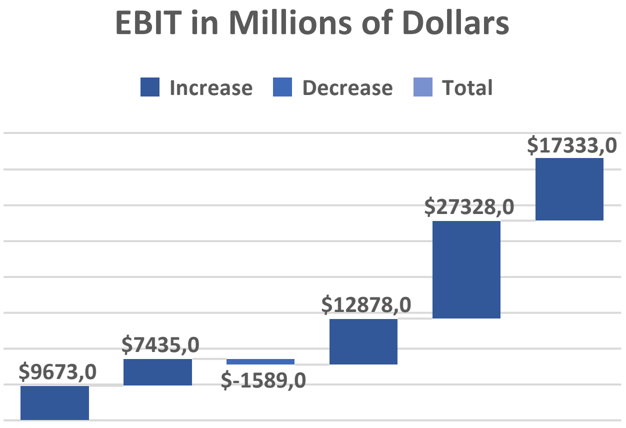
Product Overview



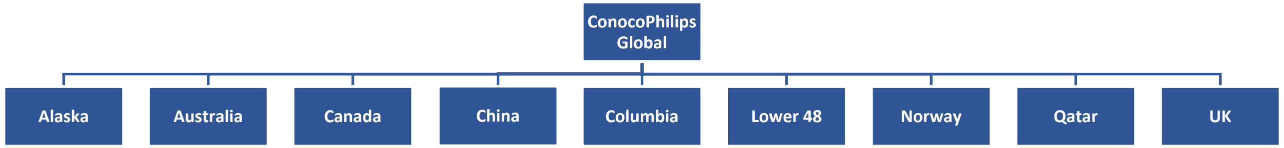


Financial Overview





Business Units



Key Management

Ryan Lance

Ryan M. Lance has been the CEO and Chairman of ConocoPhillips since May 2012, with significant experience in the oil and natural gas industry. He holds a degree in Petroleum Engineering from Montana Tech.

William Bullock Jr

Bill Bullock is ConocoPhillips' CFO since September 2020, with significant experience at the company since 1986. He holds a bachelor's degree in chemical engineering from Texas A&M University and an MBA with a finance focus from Oklahoma City University.

Andrew O'Brien

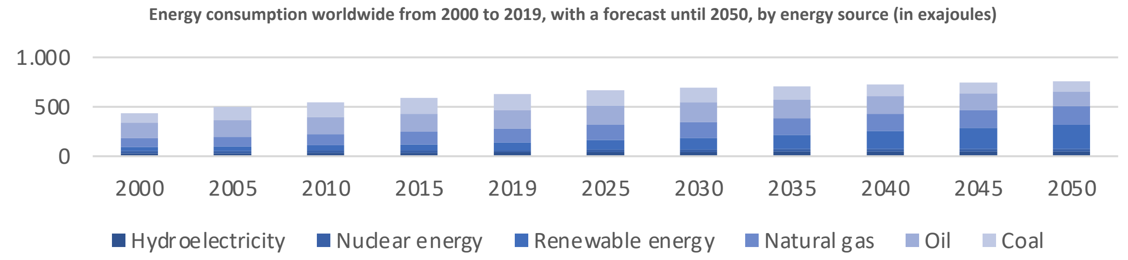
Andy O'Brien serves as ConocoPhillips' Senior VP of Global Operations since November 2022, with a career spanning various roles at the company since 1997. He is also an Independent Director at Aris Water Solutions, Inc and holds a bachelor's degree in Business Administration from the University of Plymouth.

Source: Annual report, CapIQ

Industry Overview

The Oil and Gas industry has been at the forefront of powering our lives for over 100 years now. It's products and technologies have constantly been improving, and the traditional fossil fuel industry still has a lot to give.

Consistent demand for traditional energy



The global energy market has recently been going through an evolution, specifically the transition from fossil fuels to renewables. While the proportion of renewable energy use has increased, use of traditional oil and gas fuels has remained steady and will continue to do so.

Product Overview

ConocoPhillips: COP is headquartered in Houston and focusses on drilling, exploration and production.

COTERRA: CTRA is a firm focussed on drilling with in the Permian Basin, with less focus on global operations.

devon: DVN is focussed on US onshore production and exploration.

DIAMONDBACK ENERGY: FANG is another firm focussed on drilling within the Permian Basin.

Financial Overview (FY22)

	COP	CTRA	DVN	FANG
YoY Revenue Growth	19.6%	4.6%	9.2%	8.5%
Gross Margins	47.3%	80.1%	57.0%	87.1%
EBIT Margins	28.0%	51.8%	39.6%	61.2%
LTM EV/Rev	2.25x	2.97x	2.82x	4.60x
LTM EV/EBITDA	5.40x	4.07x	4.14	5.64x

- COP is does trade at a discount using EV/ Rev metrics but is comparatively highly valued using EV/ EBITDA. Overall the company is comparatively in good heath with strong revenue growth and good gross margins.

Total Energy Production

	COP	CTRA	DVN	FANG
Oil	351.9	31.9	109.0	81.6
Gas	1,142.5	1,024.0	356.0	176.4
NGL	92.0	28.7	54.0	29.9
Total	**1,586.4**	**1,084.6**	**519.0**	**287.9**

Out of it's immediate competitors COP has the highest total production of energy products, it leads in every category and has a solid production base that allows it to keep extracting and selling commodities across the USA and the world.

Source: Annual Report, CapIQ

Investment Thesis

Recommendation
Buy (12 months)
Target €138.25(+15.24%)

Acquisition drive in the industry will push COP to expand further, rumours of acquisition of CrownRock seem good

- After ExxonMobil's acquisition of Pioneer last month there has been a general acquisition drive within the oil and gas sector focussing on firms expanding and solidifying their traditional oil and gas portfolios.
- Rumours have been surfacing from major news outlets that COP is also joining this foray and will be attempting acquisitions, most probably of CrownRock, a mid-cap oil extraction firm based in the Permian Basin.
- The firm has just beat profit expectations and is in prime position to begin further expansion, even if CrownRock falls through they should be in line to keep acquisitions moving.

Higher WTI and Brent oil prices should buttress profits further.

- Projections for COP's primary oil and gas grades show prices will generally rise in the long term so profits of operations should be higher, long-term nature of conflict in the middle east right now should also drive prices from their operations there higher for longer and buttress profits.

Push for LNG development solidifies ESG strategy

- Recently opened floating LNG terminal in Netherlands, will increase LNG tonnage and creation significantly
- Plan to spend around $4 billion to double LNG global footprint
- Such a strategy further diversifies energy portfolio and ensures that the firm keeps emissions lower and future proofs their energy capacity against highly volatile oil prices.

Source: Annual Report, CapIQ, Expert Calls

Valuation

(USD in millions)

		6M/FY23	FY24	Projections FY25	FY26	FY27	Terminal
Profit after tax		6,569	15,106	17,409	19,298	22,458	19,721
Payout ratio		52%	60%	67%	75%	82%	90%
Estimated paid dividends		**3,411**	**8,993**	**11,690**	**14,428**	**18,502**	**17,749**
Cost of equity	**9.25%**						
Long-term growth rate	**2.00%**						
Timing of dividends (mid year)		0.25	1.00	2.00	3.00	4.00	4.50
Present value of dividends		**3,336**	**8,231**	**9,793**	**11,064**	**12,985**	**164,286**

Equity value	**209,696**
(/) Outstanding shares	1,197
Fair price	**175.11**

Upside 46.2%

Stock Price 119.75 USD

Fair Price 175.11 USD

Sensitivity Analysis

Low	Cost of equity	10.45%
	Long-term growth rate	1.0%
	Present value of dividends	
	Equity value	**164,234**
	Fair price	**137.15**
High	Cost of equity	8.06%
	Long-term growth rate	3.0%
	Present value of dividends	
	Equity value	**294,382**
	Fair price	**245.83**

Catalysts

Higher Earnings

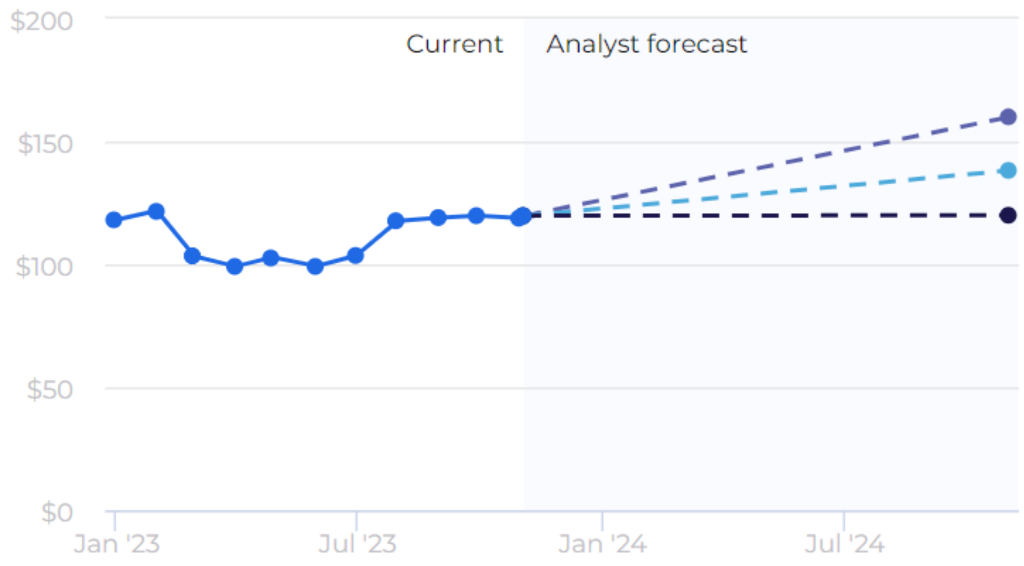
- Earnings have beaten estimates already so catalyst may have just passed.
- Strong earnings growth will give the firm cash for its expansion drive and to further invest into its capital.

Consolidation and expansion

- With greater funds for expansion, COP will attempt to consolidate traditional coverage of energy markets and acquire firms such as CrownRock.

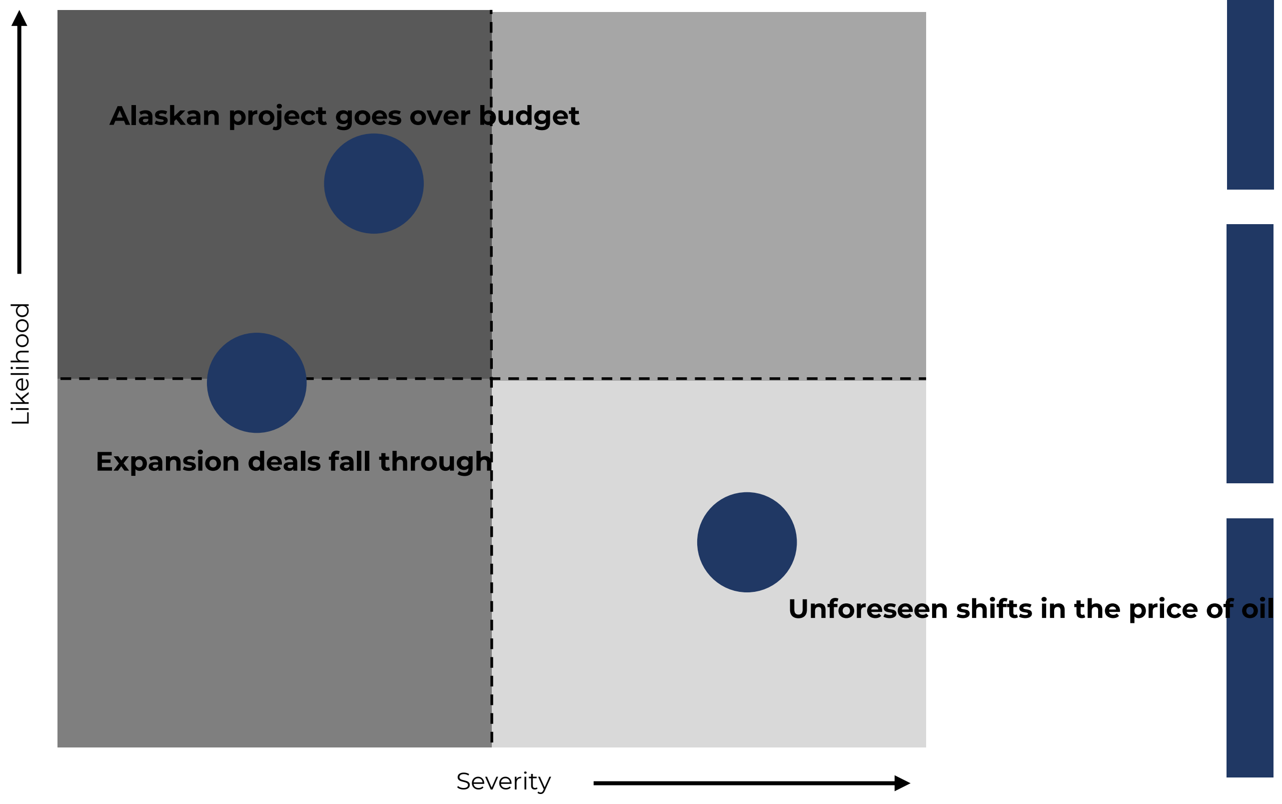
LNG growth and solidification

- Further expansion will generate greater profits and allow investment into their growing LNG projects, allows for diversification of portfolio and protection from volatile oil prices, solidifying long term growth.



Bear SP: $120.00	Base SP: $138.25	Bull SP: $160.00
Bear SP: +0.20%	Base SP: +15.24%	Bull SP: +33.61%

Risk and Mitigations



Unforeseen shifts in the price of oil

Random events and unforeseen circumstances such as Covid have the chance of bringing heightened volatility in the oil and gas markets, ultimately affecting the firm's income and cash flows. However, the firm has a diversified energy portfolio and enough cashflow to withstand heavy volatility.

Expansion deals fall through

M&A deals are never secure, and COP's deals are just rumours, there is a chance deals fall through for regulatory reasons, as the current US president is taking a hard line on drilling expansion. There is also the possibility COP is able to compete with other firms also consolidating their assets in the region. However, COP should be big enough to make some acquisitions in the area and grow its footprint.

Alaskan project goes over budget

COP has been working on a major oil megaproject in Alaska. Almost all oil and gas megaprojects go considerably over-budget, which might affect COP's ability to consolidate other firms. However, earnings from the project should be high enough to buttress any large overspends and keep budgets clean.

KING'S CAPITAL

NextEra Energy Partners– (NYSE: NEP)

Recommendation: Long

Khaled AlOdan

06/11/2023

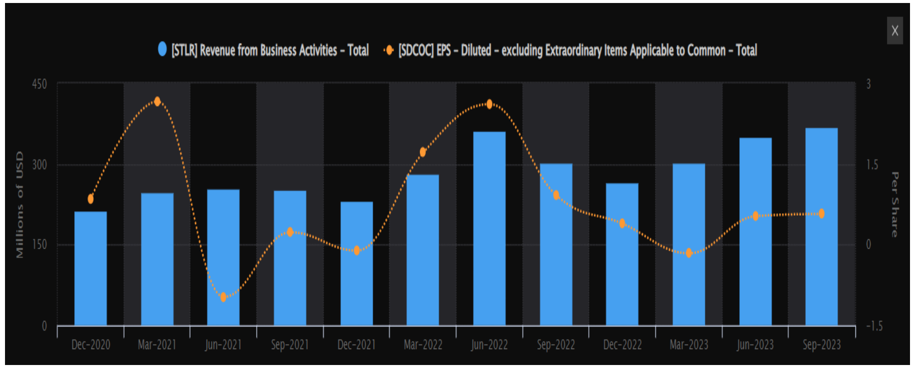
Company Overview

NextEra Energy Partners, LP, based in Juno Beach, Florida, USA, is a renewable energy company specializing in wind and solar projects. As a subsidiary of NextEra Energy, Inc., it focuses on acquiring and operating clean energy assets, delivering sustainable energy solutions and attractive investor returns.

Product Overview

NextEra Energy Partners, LP (NYSE: NEP) specializes in renewable energy, offering a portfolio of wind and solar projects, alongside solar-plus-storage solutions and natural gas pipeline assets across the U.S. The company **secures revenue through long-term power purchase agreements (PPAs)**, ensuring stable cash flows by selling generated energy to utilities and other entities. NEP's business model emphasizes predictable, long-term earnings, leveraging the renewable energy boom to deliver shareholder value. The Company owns two notable subsidiaries:

Financial Overview



Business Units

NextEra Energy Partners

Next Era Energy Resources

Florida Power & Light Company

Subsidiary Overview

Florida Power & Light Company (FPL) is the **largest energy company in the United States as measured by retail electricity produced and sold**. FPL serves more than ten million people across Florida with clean, reliable, and affordable energy. The company has **a diverse mix of generation facilities**, including one of the nation's largest solar expansions and a significant nuclear power fleet.

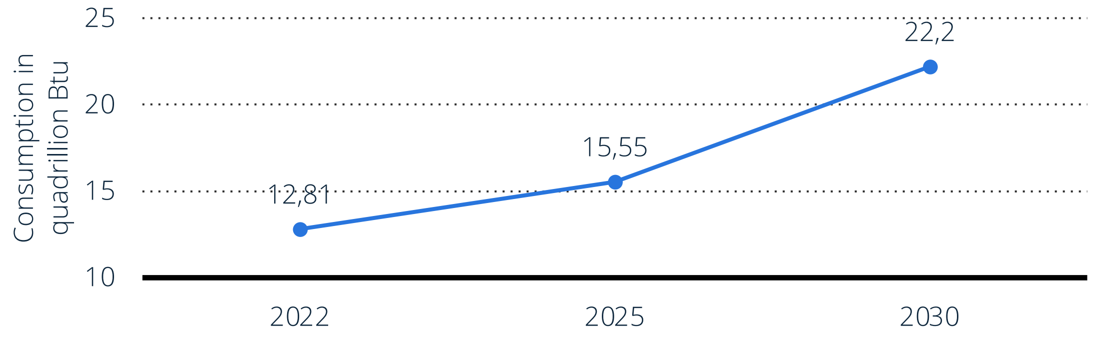
NextEra Energy Resources, **stands as a world leader in generating renewable energy from the wind and sun**. Focusing on providing **clean energy solutions and innovations in the storage space.** With a significant footprint in the wind energy sector, Energy Resources has been at the forefront of the industry, driving the development of wind power both onshore and offshore. The subsidiary's solar projects further solidify NEP's position in the renewable market, showcasing a strategic approach to energy generation that prioritizes sustainability, technological advancement, and long-term environmental stewardship.

Sources: Annual report, CapIQ, Statista, and LSEG Workspace

Industry Overview

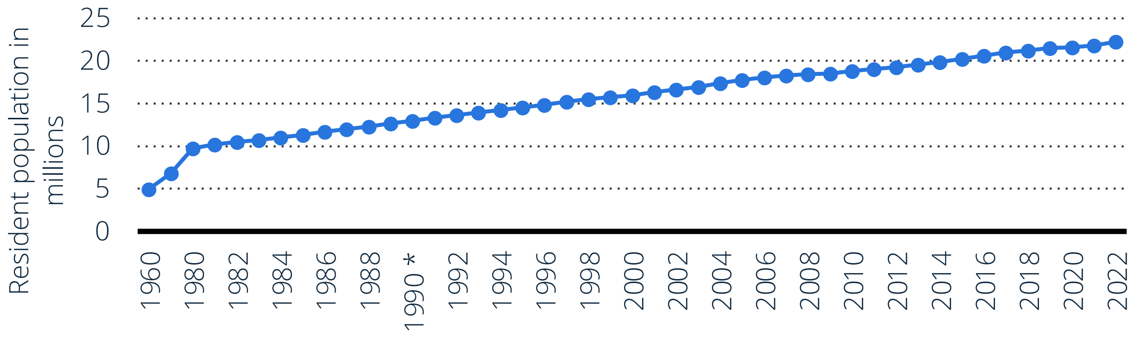
The Renewable Energy industry is a dynamic and growing force in global energy, driving the shift towards sustainable power with innovative wind, solar, and hydro technologies. As environmental priorities take center stage, renewables are poised to become increasingly integral to our energy future.

Growing Demand in US Renewable Energy



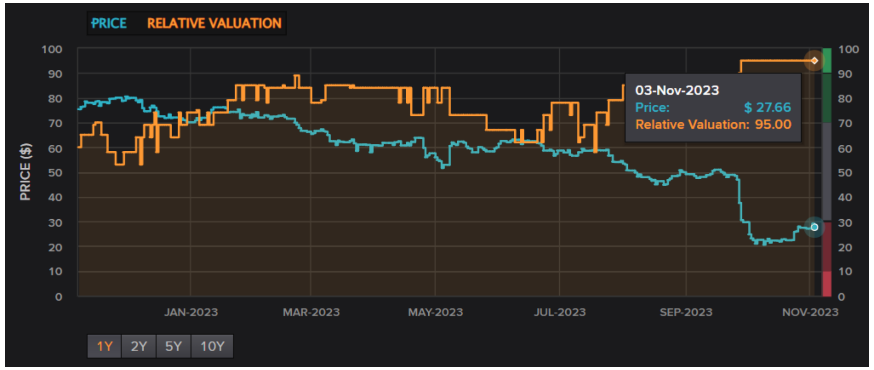
- The US renewable energy consumption is projected to have a **CAGR of 7.1%** from 2022 to 2030

Florida Consistent Growing Population



- Consistent growth in Florida's population allows FPL to have consistent revenue growth

Relative Valuation



- Based on a relative valuation model of comparable US electricity suppliers, NEP has an implied valuation of **$95 a potential upside of 343%**

Comparable Ratios

	NEP F12M	Utilities F12M Average
EV/Sales	5.7	4.3
EV/EBITDA	3.9	9.5
P/E	30.4	17.8
Price/Cash Flow	3.2	7.0
Price/Book	0.8	2.1
Dividend Yield	12.5%	4.1%

- Based on P/CF ratio, an important measure during times of low liquidity, it seems that the company is undervalued

Sources: Annual report, CapIQ, Statista, and LSEG Workspace

Investment Thesis

Recommendation
Buy (12 months)
Target $35 (+26.5%)

Overreaction by Wallstreet

- Previous drop in price was a result of the company reducing dividend growth rate expectations, to 6% to 8%, from an expected 14%
- The stock dropped by more than 60% YTD
- DDM of current expected dividend yield concludes that the market may have overreacted, and **NEP seems to be undervalued**

Growing stable Revenues

- The company is **growing steadily with long-term contracts** that can and have been hedged to reduce risks
- Operating in an attractive growing market, and having invaluable experience in the world of green energy and ESG

Sources: Annual report, CapIQ,, FT, Statista, and LSEG Workspace

Valuation

Base Case ($34.02, +23.0%)

Correction in the market as dividend and growth in revenues maintain according to expectations

Bull Case ($56.55, +104.4%)

Interest rates drop, reducing expenses and increasing cash available for distribution

Bear Case ($ 11.49, -58.5%)

Interest rates rise, increasing expenses and decreasing cash available for distribution

5-Year Discounted Dividend Model

	Range	Selected
Long-term Growth Rate	5% - 8%	6.50%
Cost of Equity	10.2% - 13%	11.57%
Fair Price	11.4923526167371 - 56.5465478935817	34.0
Upside	-57.8% - 107.8%	25.0%

(USD in millions except Fair price)

	Low	High
Stable payout ratio	70%	95%
(*) TTM Profit after tax	122	122
Adjusted dividends	**85**	**116**
Cost of equity	12.95%	10.19%
Long-term growth rate	5.00%	8.00%
Equity value	**1,074**	**5,283**
(/) Outstanding share	93	93
Fair price	**11.492**	**56.547**

Fair Price
34.02 USD

Sources: Annual report, CapIQ,, FT, Statista, and LSEG Workspace

Catalysts

Interest rates

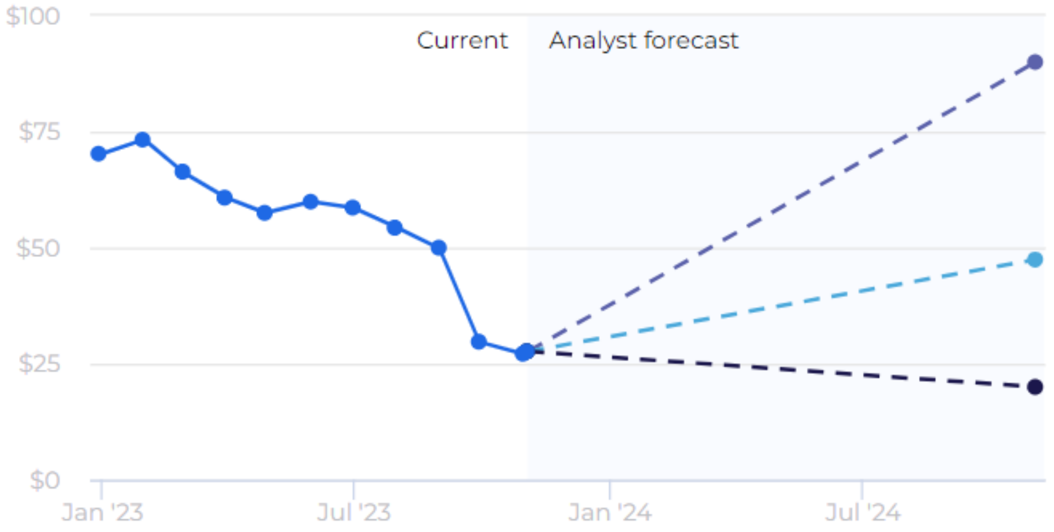
- Decreasing inflation rates may prompt the federal bank to reduce inflation rates, decreasing interest expenses and increasing cash available for distribution

Acquisition

- Trends in Oil and Natural gas industries may spread horizontally across to renewable energy producers
- NEE and NEP would be prime targets for large-cap energy producers, due to the growing revenues and expertise in the green energy sector

Subsidies

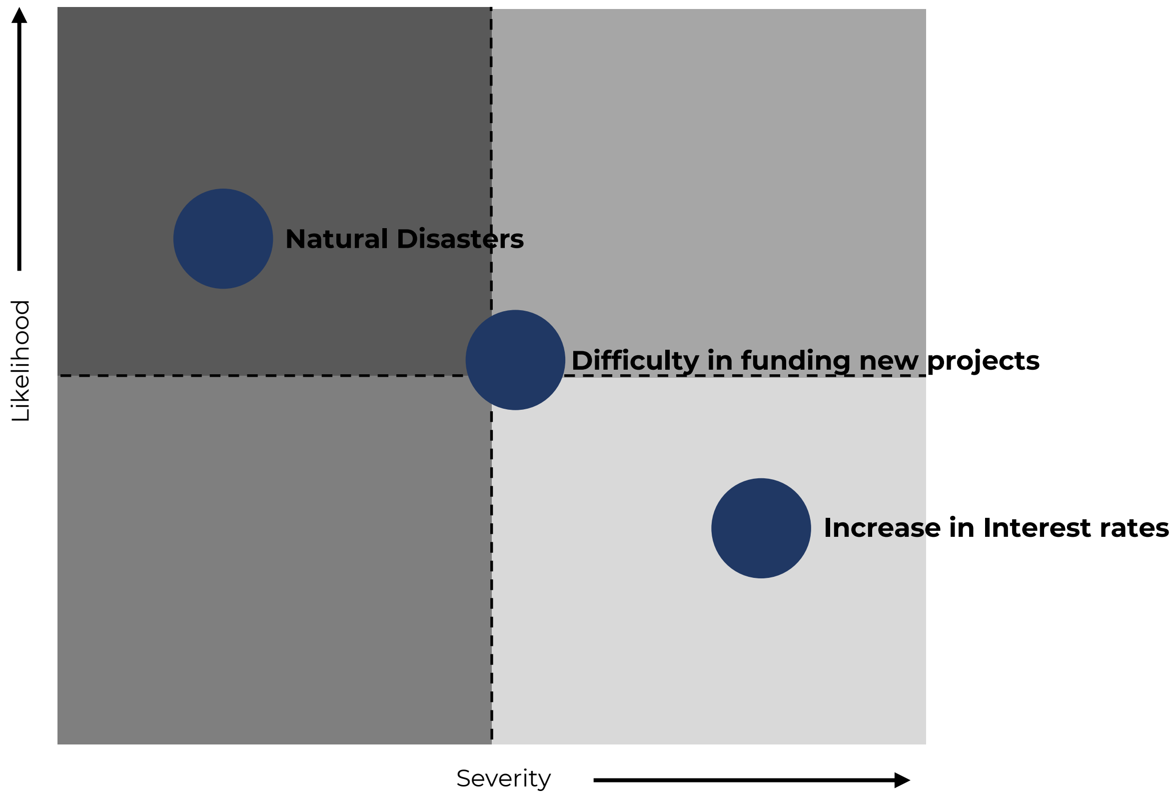
- Growing disapproval for Joe Biden, could prompt last ditch effort to clinch voters by supporting green energy infrastructure subsidies



Bear SP: $20	Base SP: $47.46	Bull SP: $90
Bear SP: -27.7%	Base SP: 71.6%	Bull SP: +225.4%

Sources: Annual report, CapIQ, Statista, FT, and LSEG Workspace

Risk and Mitigations



Increase in interest rates

An increase in interest rates would increase interest expenses cutting the cash available for distribution even more, however, recent consensus and current inflation rate suggest that rate increases is unlikely.

Natural disasters (e.g. Hurricanes)

FPL Revenue: the subsidiary's geographical location present a unique risk, Florida is prone to natural disasters, specifically hurricanes which may impact revenue for FPL, NEP's largest contributor to EPS

Difficulty in funding new projects

Acquiring Capital: NEP's plan to expand their production capacity might be hindered by difficulty in acquiring capital

KING'S CAPITAL

Clearway Energy– (NYSE:CWEN)

Recommendation: Long

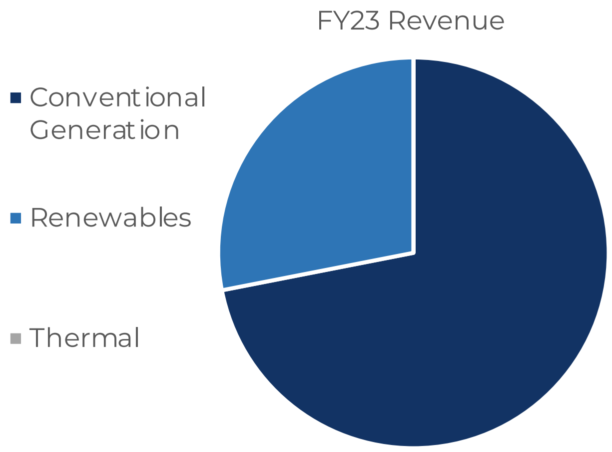
Current Price : $21.33

9/11/2023

Company Overview

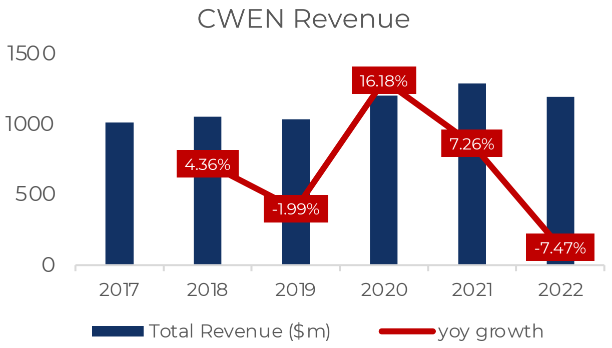
Clearway Energy is in the renewable energy business in the United States. The company operates through Conventional, Renewables and Thermal segments.

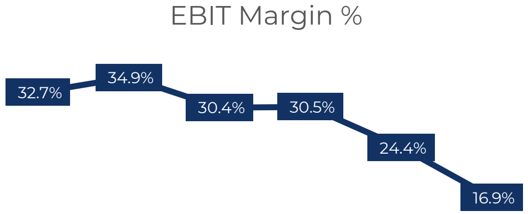
Business Overview

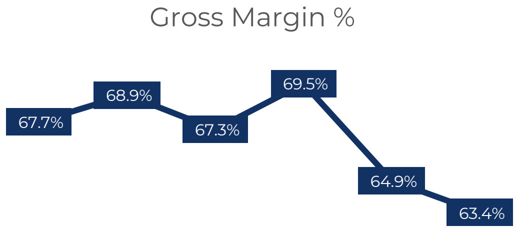


CWEN's sold its Thermal Business to KKR & Co. Inc. for $1.9b USD, providing Clearway with greater financial flexibility to fund renewable investments and to meet long-term dividend growth target of 5-8%. Additionally, eliminate the need to issue new equity.

Financial Overview

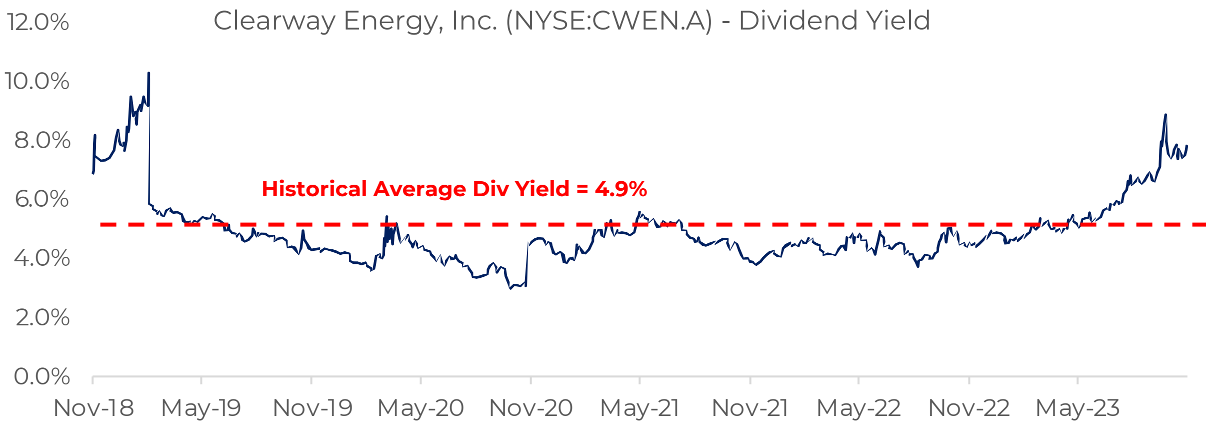






CWEN's macro backdrop remains healthy with strong coverage for dividends as seen from a 2% hike in dividend pay outs

Stable Dividend Generator



Dividend Yields have recovered to near historical highs and is expected to remain within 5-8% range going forward

Key Management

CEO, Craig Cornelius

Served as President of NRG's renewables division , and as Principal and MD in the solar investing practice at Hudson Clean Energy Partners prior to that

CFO, Steve Ryder

Served as CFO for Invenergy LLC, a Chicago-based developer, owner, and operator of clean energy projects prior to role as current CFO of Clearway Energy

GC, Jennifer Hein

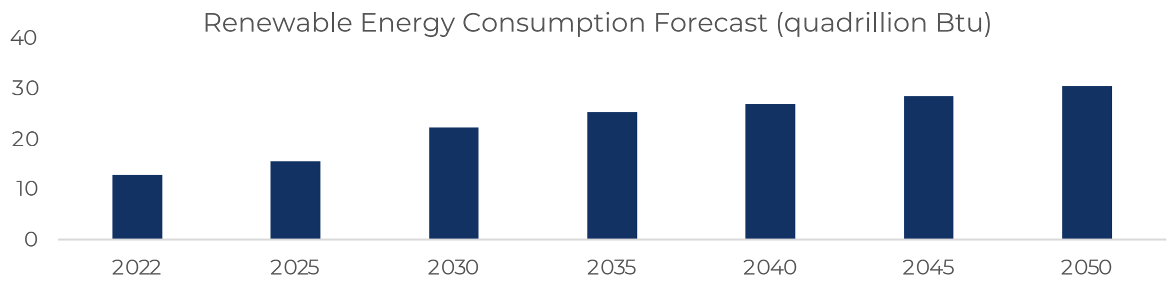
Over 20 years of experience as corporate lawyer in the energy industry. Holds a JD from University of Virginia School of Law and BA Economics and French from College of Holy Cross

Source: Annual report, CapIQ

Industry Overview

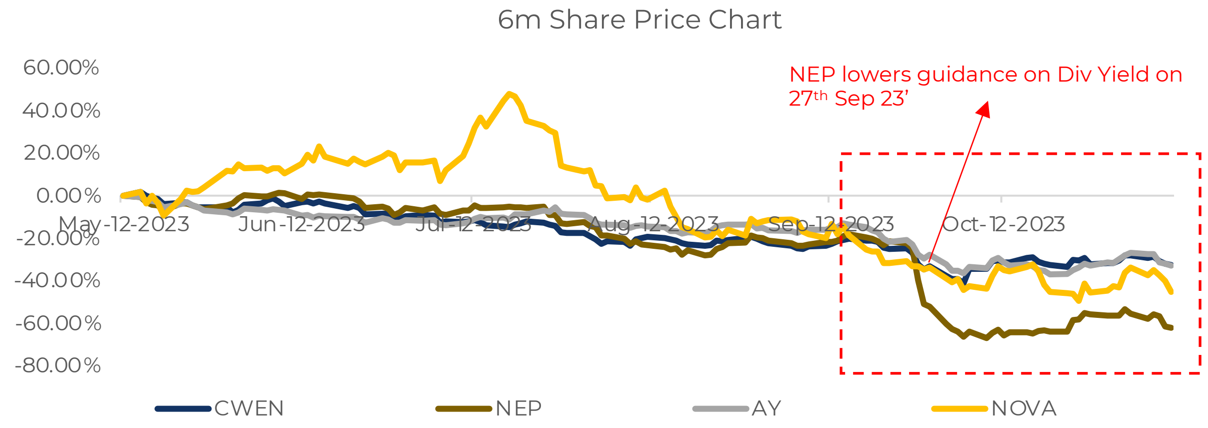
Clearway Energy is in the renewable energy business in the United States. The company operates through Conventional, Renewables and Thermal segments.

Surging Demand for Renewable Energy

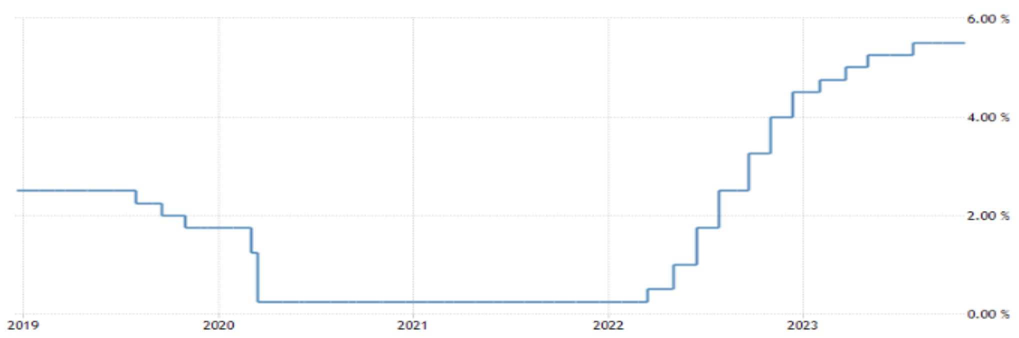


- Positive initiatives and supporting policies towards sustainability have contributed to speeding up the development of renewable energy
- Renewable energy is on track to overtake coal and become the largest source of global electricity in 3 years' time

Industry Dragged down as NEP slashes guidance



Elevated Interest Rate Environment



-Elevated interest rate environment has been a huge negative for energy companies given heavy reliance on debt financing.

Abnormal Weather Conditions affects topline

"The first quarter of 2023 reflected lower solar irradiance due to above-average rainfall in California, which resulted in lower-than-normal solar revenues."

-Sarah Rubenstein, CWEN CFO

"Wind production for its fleet in the second quarter of 2023 was approx. 25% below internal median production estimates, which was inclusive of the Alta Wind Complex's wind production at approx. 20% below internal expectations."

-Q2 23 Earnings Call

Abnormal weather conditions in the form of heavy rainfall has had negative implications on the energy industry due to lower than expected incidences of sunlight and wind

Source: Annual Report, CapIQ, Statista

Investment Thesis

Unjustified Pessimism on Wall Street

- CWEN has been sold off along with NEP's announcement to cut guidance for their dividends although CWEN is on track to deliver annual dividend per share growth of 5%-8% through 2026
- Moreover, the high interest environment poses an elevated level of risk affecting the overall outlook for the renewable energy industry due to high leverage of these companies
- However, all of CWEN's outstanding corporate level debt and 71% of their project level debt is based on a fixed rate of financing, shielding the company from the negative impact of rising interest rates

Abnormal Weather Conditions

- Abnormal weather conditions has affected CWEN's MW output
- This led to greater than expected declines in their topline
- However, this decline is temporary, and I foresee recovery as weather conditions normalizes

New Projects in the Pipeline

- CWEN currently has 2 deals in the works
- Firstly, Rosamond battery storage that has a 10.9% yield
- Secondly, Cedar creek that has a 9.3% CAFD yield
- Risk of unfavourable weather patterns are also mitigated by asset diversification across different states and different types of power plants

Source: Annual Report, CapIQ, Expert Calls

Valuation

Base Case ($29.24, +37.1%)

Correction in the market as dividend and growth in revenues maintain according to expectations

Bull Case ($34.50, +61.7%)

Interest rates drop, reducing expenses and increasing cash available for distribution

Bear Case ($9.86, -53.8%)

Interest rates rise, increasing expenses and decreasing cash available for distribution

5-Year Discounted Dividend Model

	Range	Selected
Long-term Growth Rate	5%-8%	6.50%
Cost of Equity		12%
Current Price (USD)		21.33
Fair Price (USD)		29.24
Upside		37.1%
	Bear	**Bull**
Stable Payout Ratio	150%	300%
LTM EPS	0.46	0.46
Adjusted Dividends	**0.69**	**1.38**
Cost of Equity	12%	12%
Long-term Growth Rate	5%	8%
Share Price D/(Cost of Equity - Growth Rate)	**9.86**	**34.50**
Upside	-53.8%	61.7%

Sources: Annual report, CapIQ, S&P Global

Catalysts

Upcoming Earnings Call

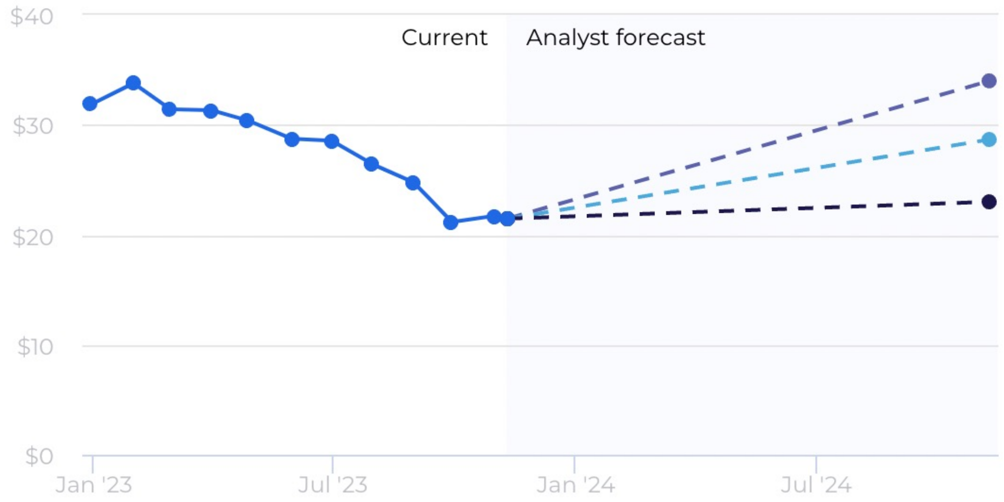
- Once weather normalizes, outperformance in revenue will cause share appreciation

Interest Rates

- Interest rates cuts will increase cash available for distribution
- Investors likely to react favourably to the news

Growing Demand for Renewable Energy

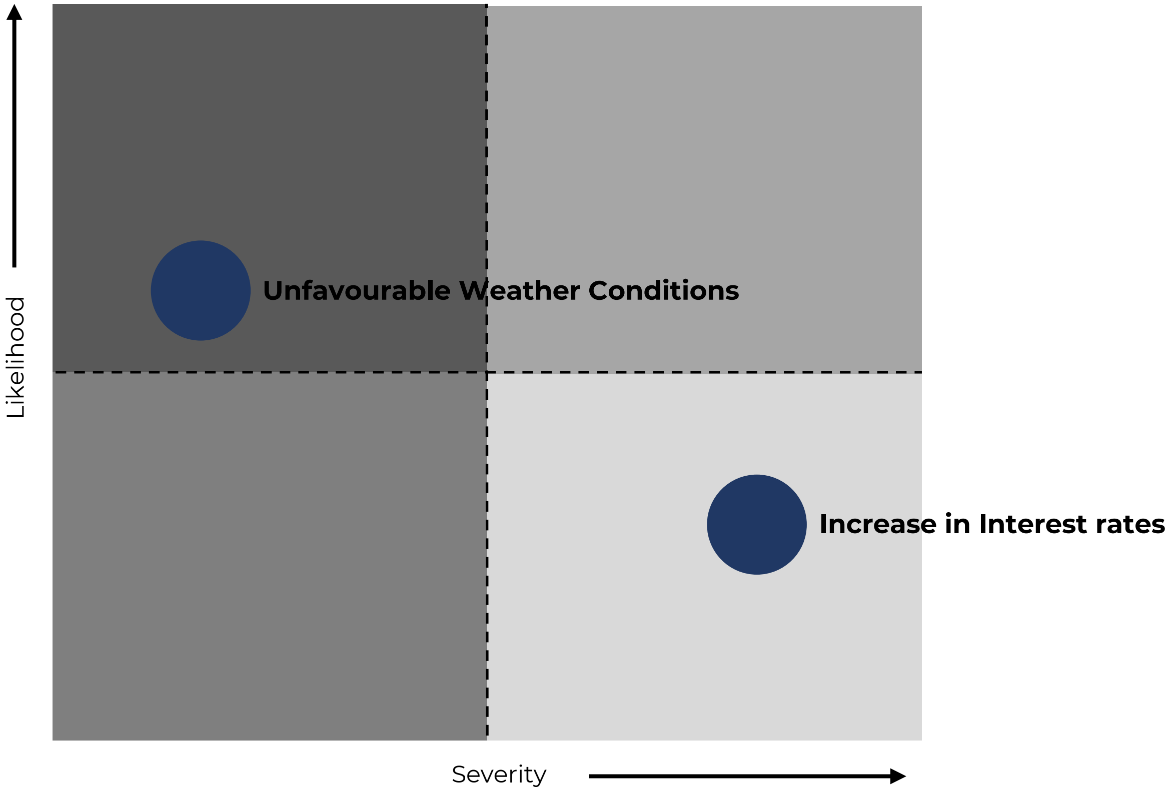
- Increasing demand fuelled by environmental concerns and sustainability goals will contribute the attractiveness of clean energy companies



Bear SP: $23	Base SP: $28.67	Bull SP: $34
Bear SP: +7.8%	Base SP: 34.4%	Bull SP: +59.4%

Sources: Annual report, CapIQ, Statista, FT, and LSEG Workspace

Risks and Mitigants



Increase in interest rates

An increase in interest rates would increase interest expenses cutting the cash available for distribution, however, recent consensus and current inflation rate suggest that rate increases is unlikely. Furthermore, the sale of CWEN's thermal business provides sufficient cash flow to mitigate impact of potential increases

Unfavourable Weather Conditions

This will cause their *MW* output to fall but this risk is mitigated through asset diversification across several states and types of power plants.